



THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

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March 3, 2016

The Honorable Mia Costello
Alaska State Senator
Chair, Senate Labor & Commerce Committee
State Capitol Room 510
Juneau, AK 99801

Dear Senator Costello:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue during our presentation to the Senate Labor & Commerce Committee on February 23, 2016. Please see questions in italics and our responses immediately below the questions.

1. *What would be the typical Alaskan's income tax burden under SB 134?*

No Alaskan can truly be described as "typical." There are single and married Alaskans with different numbers of children and different income levels, all of whom may be closer or farther from average depending on where they live and other factors. Attached is an Alaska Income Tax Matrix document that shows the estimated tax burden for a wide variety of possible Alaskan households: married and single, 0 to 4 children, with incomes ranging from \$20,000 to \$100,000.

2. *Into what federal tax bracket does the typical Alaskan fall?*

As mentioned before, there is no typical Alaskan taxpayer. The attached document "Alaska income by filing type and family size" shows the distribution by filing type and family size in an attempt to answer questions 2 and 3.

3. *What is the average household income in Alaska for different filing types, e.g. married with kids, head of household, single?*

Please see the response to question 2 above.

4. *What states have the highest comparable rates among the 43 other states with an income tax, and what are they?*

Attached is a document which compares the ratio of state to federal income tax liability in most states with an income tax. Note that only 41 states have a tax on personal wage and salary income (two states tax only dividends and interest).

5. *How much will out-of-state workers pay in income taxes under SB 134?*

The Department of Revenue estimates SB 134 would raise \$200 million from residents. The Institute of Social and Economic Research (ISER) compared total personal income of Alaska residents to wages non-residents earned in Alaska. Based on this research, ISER has estimated that non-resident workers would add an additional 7% onto the income tax collected from residents.

Under SB 134, Alaska residents would be taxed on all sources of income, although they would receive a credit for income taxes paid to other states. Non-residents, however, would only be taxed on sources of income within Alaska. This is why the ISER study only considered wages for non-residents, but total personal income for residents. However, it is possible for non-residents to have income from sources in Alaska other than wages—for instance, a rental property in Alaska or an Alaskan S-corporation or partnership. The ISER study does not account for these types of non-resident income.

The ISER study suggests that non-residents would add about \$14 million to income tax collections from their wages alone. This number would be offset by the amount earned by Alaska residents working in other states, which is indeterminate at the present time because the Department of Revenue has not found a reliable data source. This preliminary estimate would be further adjusted for non-wage income, both from non-residents sourced to Alaska and from residents sourced to other states. These figures should be treated as highly preliminary, rough estimates.

6. *How many multi-state taxpayers will there be under SB 134?*

According to the above-mentioned Department of Labor report, there were 88,000 non-resident workers in Alaska in 2014. Again, the Department of Revenue has not determined a reliable source for the reverse case (Alaskans who work elsewhere).

7. *How does the Department of Revenue's economic drag factor work as the income tax rate increases?*

The Department of Revenue's income tax model assumes an income tax would impact the growth rate of Alaska's economy. In other words, according to the model, an income tax would not immediately decrease the size of Alaska's economy at all, but the effect will accumulate over time. This component of the model takes the form of a coefficient of the marginal income tax rate on the GDP growth rate.

The model's current estimate of the economic drag coefficient is -0.3 . In other words, for every 1 percentage point increase in the average person's total marginal income tax rate, Alaska's economic growth rate would decrease by 0.3 percentage points. The model is set up to allow the coefficient to be changed, so that a person who disagrees with the coefficient of -0.3 could re-estimate the economic drag according to his or her own assumptions.

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It is important to note what exactly is meant by “marginal tax rate”. This is the **total** percentage of a person’s marginal dollar of income that goes to the government. According to literature reviewed by the Department of Revenue, the federal income tax’s contribution to a middle- to lower-income person’s marginal income tax rate is in the range of 10 to 15 percentage points. Alaska’s income tax as proposed under SB 134 would be 6% **of the federal income tax liability**. Thus, SB 134’s contribution to the marginal tax rate would be 6% of 10 to 15 percentage points, or 0.6 to 0.9 percentage points. Multiplying this number by the coefficient of -0.3 yields an economic drag factor of -0.2 to -0.3 percentage points.

The model currently assumes that underlying economic growth averages about 2.4% per year, so the income tax under SB 134 would lower economic growth to 2.1% or 2.2% per year. Economic growth is, of course, highly variable and a single year’s figure is not representative of the underlying trend.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,



Randall Hoffbeck
Commissioner

Attachments: Alaska income by filing type and family size; Alaska income tax matrix; State to federal liability ratio

Title: Alaska average income by tax filing type and family size

Preparer: Will Bishop, Economist

Purpose: To estimate the mean and median income in Alaska for different types of tax filers (single, married filing jointly, and head of household), and by different sizes of families.

Data Source: Internal Revenue Service and American Community Survey. Estimates based on the most recent year of data available (2013 for IRS, 2014 for ACS).

Key Assumptions: For federal marginal tax rate estimates, assumes taxpayers take the standard deduction rather than itemizing deductions; qualify for no credits other than the child tax credits; and that single parents file as "head of household".

History:

Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

B19119: MEDIAN FAMILY INCOME IN THE PAST 12 MONTHS (IN 2014 INFLATION-ADJUSTED DOLLARS) BY FAMILY SIZE - Universe: Families
 2014 American Community Survey 1-Year Estimates

	Alaska	
	Estimate	Margin of Error
Total:	82,307	+/-2,332
2-person families	75,937	+/-3,437
3-person families	78,887	+/-6,209
4-person families	105,542	+/-6,639
5-person families	99,562	+/-10,219
6-person families	84,480	+/-12,148
7-or-more-person families	73,023	+/-10,052

Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2013

[Money amounts are in thousands of dollars]

Item	All returns	Size of adjusted gross income									
		Under \$1 [1]	\$1 under \$10,000	\$10,000 under \$25,000	\$25,000 under \$50,000	\$50,000 under \$75,000	\$75,000 under \$100,000	\$100,000 under \$200,000	\$200,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
ALASKA											
Number of returns	359,140	3,600	55,370	65,930	80,690	51,400	35,660	53,120	11,470	1,320	590
Number of single returns	184,100	2,330	48,220	46,070	45,530	22,620	10,180	7,670	1,260	150	70
Number of joint returns	128,510	1,010	2,530	7,810	19,260	21,220	22,150	43,060	9,880	1,120	490
Number of head of household returns	37,590	140	3,710	10,090	12,910	5,950	2,580	1,900	260	30	20

Department of Revenue estimates	Mean	Median	Federal marginal tax bracket
Single returns	\$36,644	\$23,000	15% (assuming no children)
Joint returns	\$115,516	\$90,000	15%
Head of household returns	\$44,615	\$35,000	10% (assuming at least 1 child)

Title: Alaska Income Tax Matrix

Preparer: Brandon Spanos, Deputy Director, Tax Division
Will Bishop, Economist

Purpose: To estimate the state income tax burden that various Alaskans would face under Senate Bill 134 (2016). This analysis considers both single people and married couples, with 0 to 4 children, and incomes ranging from \$20,000 to \$100,000 per year.

Data Source: IRS federal income tax rates, child tax credits, personal exemptions, and standard deductions for tax year 2016 (publicly available)

Key Assumptions: Single parent qualifies for and files as "head of household", married couple files jointly, children are all 16 or under, income is from wages, standard deduction is greater than itemized, the only credit the filers qualify for is the child tax credit, children are only dependents.

History:

Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

**Proposed Alaska Income Tax at 6% of Total Federal Tax
Estimated Tax for Tax Year 2016**

Married with No Children

0

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Less Standard Deduction	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600
Less Personal Exemptions	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable Income	(700)	9,300	19,300	29,300	39,300	49,300	59,300	69,300	79,300
Tax Before Credits	-	930	1,968	3,468	4,968	6,468	7,968	9,468	11,368
Less Child Tax Credit	-	-	-	-	-	-	-	-	-
Total Federal Tax	-	930	1,968	3,468	4,968	6,468	7,968	9,468	11,368
Total Alaska Income Tax	\$ -	\$ 56	\$ 118	\$ 208	\$ 298	\$ 388	\$ 478	\$ 568	\$ 682
Alaska Tax as % of Gross Income	0.00%	0.19%	0.30%	0.42%	0.50%	0.55%	0.60%	0.63%	0.68%

Married Couple with 1 Child

1

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Less Standard Deduction	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600
Less Personal Exemptions	12,150	12,150	12,150	12,150	12,150	12,150	12,150	12,150	12,150
Taxable Income	(4,750)	5,250	15,250	25,250	35,250	45,250	55,250	65,250	75,250
Tax Before Credits	-	525	1,525	2,860	4,360	5,860	7,360	8,860	10,360
Less Child Tax Credit	-	525	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Federal Tax	-	-	525	1,860	3,360	4,860	6,360	7,860	9,360
Total Alaska Income Tax	\$ -	\$ -	\$ 32	\$ 112	\$ 202	\$ 292	\$ 382	\$ 472	\$ 562
Alaska Tax as % of Gross Income	0.00%	0.00%	0.08%	0.22%	0.34%	0.42%	0.48%	0.52%	0.56%

Married Couple with 2 Children

2

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Less Standard Deduction	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600
Less Personal Exemptions	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200
Taxable Income	(8,800)	1,200	11,200	21,200	31,200	41,200	51,200	61,200	71,200
Tax Before Credits	-	120	1,120	2,253	3,753	5,253	6,753	8,253	9,753
Less Child Tax Credit	-	120	1,120	2,000	2,000	2,000	2,000	2,000	2,000
Total Federal Tax	-	-	-	253	1,753	3,253	4,753	6,253	7,753
Total Alaska Income Tax	\$ -	\$ -	\$ -	\$ 15	\$ 105	\$ 195	\$ 285	\$ 375	\$ 465
Alaska Tax as % of Gross Income	0.00%	0.00%	0.00%	0.03%	0.18%	0.28%	0.36%	0.42%	0.47%

Married Couple with 3 Children

3

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600
Less Personal Exemptions	20,250	20,250	20,250	20,250	20,250	20,250	20,250	20,250	20,250
Taxable Income	(12,850)	(2,850)	7,150	17,150	27,150	37,150	47,150	57,150	67,150
Tax Before Credits	-	-	715	1,715	3,145	4,645	6,145	7,645	9,145
Less Child Tax Credit	-	-	715	1,715	3,000	3,000	3,000	3,000	3,000
Total Federal Tax	-	-	-	-	145	1,645	3,145	4,645	6,145
Total Alaska Income Tax	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 99	\$ 189	\$ 279	\$ 369
Alaska Tax as % of Gross Income	0.00%	0.00%	0.00%	0.00%	0.01%	0.14%	0.24%	0.31%	0.37%

Married Couple with 4 Children

4

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600
Less Personal Exemptions	24,300	24,300	24,300	24,300	24,300	24,300	24,300	24,300	24,300
Taxable Income	(16,900)	(6,900)	3,100	13,100	23,100	33,100	43,100	53,100	63,100
Tax Before Credits	-	-	310	1,310	2,538	4,038	5,538	7,038	8,538
Less Child Tax Credit	-	-	310	1,310	2,538	4,000	4,000	4,000	4,000
Total Federal Tax	-	-	-	-	-	38	1,538	3,038	4,538
Total Alaska Income Tax	\$ -	\$ 2	\$ 92	\$ 182	\$ 272				
Alaska Tax as % of Gross Income	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.12%	0.20%	0.27%

Single with No Children

0

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300
Less Personal Exemptions	4,050	4,050	4,050	4,050	4,050	4,050	4,050	4,050	4,050
Taxable Income	9,650	19,650	29,650	39,650	49,650	59,650	69,650	79,650	89,650
Tax Before Credits	984	2,484	3,984	5,684	8,184	10,684	13,184	15,684	18,184
Less Child Tax Credit	-	-	-	-	-	-	-	-	-
Total Federal Tax	984	2,484	3,984	5,684	8,184	10,684	13,184	15,684	18,184
Total Alaska Income Tax	\$ 59	\$ 149	\$ 239	\$ 341	\$ 491	\$ 641	\$ 791	\$ 941	\$ 1,091
Alaska Tax as % of Gross Income	0.30%	0.50%	0.60%	0.68%	0.82%	0.92%	0.99%	1.05%	1.09%

Single Parent with 1 Child

1

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300
Less Personal Exemptions	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Taxable Income	2,600	12,600	22,600	32,600	42,600	52,600	62,600	72,600	82,600
Tax Before Credits	260	1,260	2,728	4,228	5,728	7,448	9,948	12,448	14,948
Less Child Tax Credit	260	1,000	1,000	1,000	1,000	1,000	750	250	-
Total Federal Tax	-	260	1,728	3,228	4,728	6,448	9,198	12,198	14,948
Total Alaska Income Tax	\$ -	\$ 16	\$ 104	\$ 194	\$ 284	\$ 387	\$ 552	\$ 732	\$ 897
Alaska Tax as % of Gross Income	0.00%	0.05%	0.26%	0.39%	0.47%	0.55%	0.69%	0.81%	0.90%

Single Parent with 2 Children

2

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300
Less Personal Exemptions	12,150	12,150	12,150	12,150	12,150	12,150	12,150	12,150	12,150
Taxable Income	(1,450)	8,550	18,550	28,550	38,550	48,550	58,550	68,550	78,550
Tax Before Credits	-	855	2,120	3,620	5,120	6,620	8,935	11,435	13,935
Less Child Tax Credit	-	855	2,000	2,000	2,000	2,000	1,750	1,250	750
Total Federal Tax	-	-	120	1,620	3,120	4,620	7,185	10,185	13,185
Total Alaska Income Tax	\$ -	\$ -	\$ 7	\$ 97	\$ 187	\$ 277	\$ 431	\$ 611	\$ 791
Alaska Tax as % of Gross Income	0.00%	0.00%	0.02%	0.19%	0.31%	0.40%	0.54%	0.68%	0.79%

Single Parent with 3 Children

3

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300
Less Personal Exemptions	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200
Taxable Income	(5,500)	4,500	14,500	24,500	34,500	44,500	54,500	64,500	74,500
Tax Before Credits	-	450	1,513	3,013	4,513	6,013	7,923	10,423	12,923
Less Child Tax Credit	-	450	1,513	3,000	3,000	3,000	2,750	2,250	1,750
Total Federal Tax	-	-	-	13	1,513	3,013	5,173	8,173	11,173
Total Alaska Income Tax	\$ -	\$ -	\$ -	\$ 1	\$ 91	\$ 181	\$ 310	\$ 490	\$ 670
Alaska Tax as % of Gross Income	0.00%	0.00%	0.00%	0.00%	0.15%	0.26%	0.39%	0.54%	0.67%

Single Parent with 4 Children

4

	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Gross Income									
Less Standard Deduction	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300
Less Personal Exemptions	20,250	20,250	20,250	20,250	20,250	20,250	20,250	20,250	20,250
Taxable Income	(9,550)	450	10,450	20,450	30,450	40,450	50,450	60,450	70,450
Tax Before Credits	-	45	1,045	2,405	3,905	5,405	6,910	9,410	11,910
Less Child Tax Credit	-	45	1,045	2,405	3,905	4,000	3,750	3,250	2,750
Total Federal Tax	-	-	-	-	-	1,405	3,160	6,160	9,160
Total Alaska Income Tax	\$ -	\$ 84	\$ 190	\$ 370	\$ 550				
Alaska Tax as % of Gross Income	0.00%	0.00%	0.00%	0.00%	0.00%	0.12%	0.24%	0.41%	0.55%

Assumptions: Single parent qualifies for and files as "head of household", married couple files jointly, children are all 16 or under, income is from wages, standard deduction is greater than itemized, the only credit the filers qualify for is the child tax credit, children are only dependents.

Title: Ratio of state to federal income tax liability

Preparer: Will Bishop, Economist

Purpose: To estimate the ratio of state income tax liability to federal income tax liability for certain taxpayers in other states. This intends to show how an Alaska income tax equal to 6% of a taxpayer's federal tax liability, as proposed in Senate Bill 134 (2016), would compare to the state income tax burden in other states.

Data Source: Department of Revenue economists' research on other states' income tax rates.

Key Assumptions: This analysis considers two types of taxpayers: a single person with \$50,000 of federal Adjusted Gross Income (AGI), and a single person with \$100,000 of federal AGI. It also assumes the taxpayer takes the standard state and federal deductions rather than itemizing deductions.

History:

Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

<u>State</u>	<u>Estimated ratio of state to federal income liability for a single person with \$50,000 AGI</u>	<u>Estimated ratio of state to federal income liability for a single person with \$100,000 AGI</u>	<u>Difference</u>
Arizona	20.53%	14.70%	-5.82%
California	37.38%	37.21%	-0.17%
Colorado	25.42%	20.70%	-4.73%
Connecticut	27.07%	23.19%	-3.87%
Delaware	40.84%	30.70%	-10.14%
Georgia	42.41%	29.82%	-12.59%
Hawaii	55.12%	39.99%	-15.13%
Idaho	36.54%	31.78%	-4.76%
Illinois	39.53%	26.18%	-13.35%
Indiana	27.17%	17.90%	-9.27%
Iowa	41.67%	30.20%	-11.46%
Kansas	33.42%	23.97%	-9.45%
Kentucky	46.64%	30.89%	-15.75%
Louisiana	22.29%	18.11%	-4.19%
Maine	46.64%	36.48%	-10.16%
Maryland	34.69%	23.96%	-10.73%
Massachusetts	40.24%	27.09%	-13.15%
Michigan	30.75%	21.35%	-9.40%
Minnesota	31.62%	29.36%	-2.26%
Missouri	38.29%	24.42%	-13.87%
Montana	37.84%	26.12%	-11.72%
Nebraska	45.04%	32.95%	-12.09%
New Mexico	30.65%	23.09%	-7.56%
New York	48.72%	33.29%	-15.43%
North Carolina	45.75%	34.83%	-10.92%
North Dakota	8.29%	10.01%	1.72%
Ohio	22.39%	18.74%	-3.65%
Oklahoma	39.69%	26.92%	-12.78%
Oregon	48.23%	33.71%	-14.52%
Rhode Island	27.33%	20.74%	-6.58%
South Carolina	30.11%	28.65%	-1.46%
Utah	42.45%	27.11%	-15.34%
Vermont	19.49%	23.97%	4.48%
Virginia	43.15%	29.38%	-13.77%
West Virginia	33.25%	27.90%	-5.36%
Wisconsin	50.13%	33.64%	-16.50%
Mean by state	35.85%	26.92%	-8.94%
Median by state	37.61%	27.10%	-10.51%